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MEMORANDUM FOR: Mr. James T. McIntyre, Jr.
Acting Director, Office of Management
and Budget

SUBJECT: Assessment of Zero-Base Budgeting [ ]   STAT

REFERENCE: OMB Bulletin No. 78-1, dated
11 October 1977, subject as above [ ]   STAT

1.   Attached are two Intelligence Community Staff
responses to the ZBB Evaluation Questionnaire. The first
answers the questions from the standpoint of our role as the
central program/budget office for the Intelligence Com-
munity. The second set of answers addresses our experience
with ZBB as an entity within the NFIP.

2.   As you know, full use of the ZBB system was em-
ployed in developing the National Foreign Intelligence
Program (NFIP) Budget this year. As a result, I believe
that the budget was prepared with more careful attention to
relative priorities of all Intelligence Community activities.
This represented a significant improvement over the past
budgetary processes, which, for the most part, took the bulk
of diverse and expensive activities on faith and critically
reviewed only a small percentage of the program made visible
by debate over issues. Another noteworthy benefit produced
by ZBB was the development of a budget structure which
enabled us to review the budget functionally as well as in
the more traditional Intelligence Community organizations
and appropriations terms. This enabled us to view the many
disparate intelligence activities as a whole concentrating
on identifying acceptable trade-offs both within and across
functional program areas.

SUBJECT: Assessment of Zero-Base Budgeting

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3.   With the experience gained from this year's exercise, together with the advantages of using a ZBB approach during the programming phase of the Intelligence Community's program/ budget cycle next summer, we believe preparing the FY 1980 budget will be greatly facilitated.

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Attachments:
1.   Eval. of ZBB Process
       Questionnaire (ICS)
2.   Eval. of ZBB Process
       Questionnaire (NFIP)

2

INTELLIGENCE COMMUNITY STAFF
EVALUATION OF ZERO-BASE BUDGETING
(Responses are keyed to the OMB Questionnaire)

A.   Structure of the Process

1.   The Intelligence Community Staff identified eight decision units containing a total of twenty-six decision packages for internal review. For the most part, decision units were prepared at the office level; in two offices, additional functional breakdowns were deemed appropriate.

2.   No.

3.   The internal decision unit structure will remain the same next year; however, we do anticipate a reduction in the paper work generated by this year's ZBB effort.

B.   Preparation and Review of ZBB Materials

4.   The Intelligence Community Staff's budget and fiscal office monitored the ZBB process from start to finish. The budget office also assisted the Program Manager in the evaluation and ranking process of the Staff's twenty-six decision packages.

5.   No

6.   The Staff's objectives had previously been well defined in our Missions and Functions Statement; preparation of the objectives at the office level did, however, provide a broader perspective for the analysi of various means to meet Staff objectives.

7.   Our definition of minimum level was consistent with OMB guidance; decision unit managers were instructed that their minimum level of effort should reflect that level of effort below which it would not be a worthwhile venture to continue to try and meet their specific objectives.

8.   Two of our decision units utilized an austere level to bridge the gap between minimum and current levels. The other six decision units were constructed in such a manner that higher management was provided meaningful increments when considering the various packages within a particular decision unit.

C.   Ranking Process

9.   Each decision unit manager ranked the packages as well as particular elements within the packages (i.e., external contracts) prior to submission to the office director or the program manager and the budget office. The program managers and the budget officer ranked all packages submitted. The packages were then discussed in detail with the Acting D/DCI/IC who made the final decison on the actual rankings of all packages.

D.   Analysis of the Process

10.   The volume of budget justification material rose approximately 50% from last year.

11.   The ZBB process facilitated consideration of major issues by forcing managers to look at various levels of effort and alternative methods of meeting their objectives in an efficient manner.

12.   More managers at various levels were involved in the budget process this year as a direct result of the ZBB process. Their involvement in the process definitely had a positive approach not only on their perspective of their own office, but also provided them with a greater understanding of what the Staff, as a whole, must face up to.

13.   Trade-offs within or between programs were accomplished, especially in the external contracting area.

14.   The internal ranking process identified specific areas within the external contract area where savings were accomplished.

15.   The process functions well, especially in the area of contractual services, and was found to be readily adaptable to the Staff's budget process. The experinece gained with ZBB this year will be of great value next year.

16.   Experience gained from this year's ZBB effort and training programs now available will be of great value during the 1980 budget cycle.

17.   Format of submission should be standardized in the sense that packages should either be presented in "Rank Order" or with the "overview" the packages pertain to. OMB should provide guidance as to their preference.

18.   See D-17 above.

NFIP CENTRAL PROGRAM/BUDGET OFFICE
EVALUATION OF ZERO BASE BUDGETING (ZBB)
(Responses are keyed to the OMB Questionnaire)

A.   Structure of the Process

    1.   Two hundred and seventy eight (278) decision units
were identified in the National Foreign Intelligence Program
(NFIP) for internal review. For the most part, three or
more decision packages were prepared for each of the decision
units. In all, there were nine hundred and ten (910) decision
packages prepared. NFIP decision units did not necessarily
represent organizational levels. The ZBB structure from
which decision units were developed permitted them to reflect
systems/projects, programs, and/or organizations. In cases
where decision units did reflect organizations they were
usually at an Agency office level.

    2.   Yes. For higher review the 910 subordinate deci-
sion units were rolled into 36 consolidated decision units
and 10 structural categories.

    3.   It is expected that NFIP managers will drive ZBB
deeper into their Agencies/Services for the FY 1980-84
program formulation. Accordingly, at the Agency/Service
level additional and more discrete decision units will be
established. However, the Intelligence Community Staff
(ICS) does not foresee any significant change to the
number of decision units to be included in the Agency/Ser-
vice NFIP program or budget submissions. The development of
additional decision units at the Agency/Service level will
enhance the benefits to be derived from the ZBB process by:
involving operational mangers in the decision package
formulation and ranking process to a greater extent than in
FY 1979; giving Program Managers more information with which
to rank and make decision package trade-offs before their
budget is submitted; increasing the reliability of the
information provided to successive levels of review authori-
ties.

B.   Preparation and Review of ZBB Materials

    4.   The ICS, as the central program and budget office
for the NFIP, guided and led the ZBB process for the Intelligence
Community. The effort began with the development of a
structural framework from which decision units were es-
tablished in coordination with Program Managers. Then a

detailed ZBB instruction and guidance document was drafted
and provided to the NFIP Agencies/Services. Following,
there were meetings to discuss ZBB procedures and further
explain the process, and finally budget submissions were
received, reviewed, and placed in an overall NFIP ranking.
This latter review and decision phase was supported by an
extensive ADP system designed by the ICS for ZBB. Our
answer to Question #C.9 on the ranking process gives further
details as to the utilization of ADP to support ZBB.

    5.   Since ZBB was implemented in the budget phase of
the Intelligence Community planning, programming and budgeting
cycle, alternative analysis and selection largely was
accomplished earlier. Some alternatives were very closely
studied, especially in two highly classified areas.

    6.   Yes. More and better defined objectives were
evident in the FY 1979 budget as a result of the ZBB formats
which required that each decision unit's goals and objectives
be stated. This served to clearly identify each decision
unit's reason or purpose as an intelligence activity and,
therefore, promoted better budget analysis and overall
understanding of requirements.

    7.   The standard textbook definition of the minimum
decision package level was provided in the Intelligence Com-
munity ZBB guidance and instruction manual. However,
because of the difficulty experienced by Managers in making
such a subjective judgment and the strategic importance of
not identifying too low a level, most Decision Unit Managers
used percentage decrement factors and previously approved
program levels to determine their minimum decision packages.
The use of a percentage decrement, say about 70 percent from
the current service level, seems to be a useful means of
determining minimum levels. This might appear to some to be
"70 percent base budgeting" rather than a true ZBB approach.
However, ZBB is not abandoned by the adoption of using a
percentage decrement for determining the minimum levels
because a particular decision package must still be completely
analyzed and justified, and in the process management may
elect to eliminate it, i.e., reduce it to the zero base.
Further, a review of the decision unit's activities and
functions can still be made to verify that they remain valid
for the budget year and are still necessary before any
decision package level is determined.

2

8.   Yes. About 31 percent of the NFIP decision units identified at least one "austere level" decision package between minimum and current.

C.   Ranking Process

9.   During the ranking process, attention was primarily focused upon the relative priority of decision packages lying around the margin, i.e., the fiscal cut-off lines. The decision packages lying well within the expected fund availability were only reviewed to assure that they indeed included only the highest priority NFIP activities. Four resource levels were used to assist in the overall ranking of the 910 NFIP decision packages. They were:

- Level A (Decrement): Equal to a 5% reduction from the preliminary OMB NFIP guidance. This level represents a reduction in real terms to the FY 78 appropriation(s) plus inflation.

- Level B (Basic): Equal to the preliminary OMB NFIP budget guidance.

- Level C (Overguidance): Equal to the FY 1978 NFIP appropriations plus pay raise, inflation and 3% program growth.

- Level D: Equal to the PRC summer program approval for the FY 79 NFIP.

Consideration of these alternate budget levels during ranking meetings aided decision makers to ensure that the highest priority NFIP needs were met in the context of overall guidance received from the President. Also, a ZBB ADP support system was developed by the IC Staff and was of great value during the ranking phase. Due to the large volume of decision units and the need to change them as decisions were made and to manipulate them in various ranking scenarios before making final decisions, ADP support was an essential aspect of the NFIP ZBB process.

D.   Analysis of the Process

10. Yes. It is estimated that there was an increase ranging from 20 to 35 percent in the volume of budget justification material provided with the ZBB submissions over that provided in the past. No change is anticipated in the amount of material required in FY 80.

3

11. As in past budget exercises, major issues continued to be an important consideration in the FY 1979 ZBB process. In most instances, major issues were synonymous with a specific decision package or unit. In cases where major issues crossed over various decision units, this tended to hinder their consideration, since they were not as readily apparent as in the past. Also, preoccupation with forming decision units and packages and ranking in general kept major issues from being surfaced and resolved early enough in the budget process. Perhaps the greatest hindrance was that higher management desired to conduct major issue consideration as in the past and separate it from the ZBB process. Consequently, Program Managers were forced to comply with two systems.

12. No.

13. Yes. The identification of various levels of effort among decision units gave decision makers more opportunity to make trade-offs this year than in the past.

14. The ZBB process has forced a greater degree of scrutiny of similar activities between major programs and identification of cross-program savings.

15. The ZBB process seems to work best in those areas characterized by heavy investment and R&D-type expenditures. It also provided a capability to at least start looking more closely at support costs such as administration, logistics, and utilities, which previously were most difficult to realize.

16. No one was sufficiently trained in ZBB. However, the experience gained from this year's exercise, and training programs that are now available, will greatly assist the FY 80 ZBB effort.

17. OMB guidance should be revised so that a firm commitment to ZBB (and away from the "old way" of budgeting) is more evident. As it was, the OMB guidance represented an edict to "go forward and do ZBB and then tell us what you did."

18. See item D17.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OPBD

BULLETIN NO. 78-1 — October 11, 1977

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Assessment of Zero-Base Budgeting

1. **Purpose.** This Bulletin covers the preparation of responses to a questionnaire on the evaluation of zero-base budgeting (ZBB).

2. **Background.** One of the major goals of the Administration is to insure that an effective zero-base budgeting system is established in the Federal Government. At this time, 1979 budget requests have been prepared using zero-base budgeting methods and have been submitted to the Office of Management and Budget (OMB).

Information on how ZBB operated within the agencies is now required so that a Government-wide assessment of this year's performance can be prepared and the need for future modifications can be considered.

3. **Material required.** The attached questionnaire covers the period through September 1977, when the 1979 budget requests were formulated and submitted to OMB. Agencies should submit two copies of the responses by November 11, 1977.

4. **Inquiries.** Inquiries should be directed to the OMB program division responsible for reviewing the agency's budget estimates or to the Budget Review Division (395-3830 or 395-3144).

James T. McIntyre, Jr.
Acting Director

Attachment

ATTACHMENT
Bulletin No. 78-1

Evaluation of Zero-Base Budgeting

A. Structure of the process.

1. How many decision units were identified for internal review? How many internal decision packages were prepared? What level in the agency organization structure do these decision units represent?

2. Were internal decision units consolidated for submission to higher levels in the agency?

3. Are there plans to raise or lower the decision unit level (e.g., into field offices) next year? Will the decision unit structure be altered otherwise next year? What is the agency's expected number of internal decision units and packages for next year?

B. Preparation and review of ZBB materials.

4. What was the role of the central budget office in the ZBB process? Describe particularly any involvement in setting objectives, ranking, and evaluation, etc.

5. Did the analysis of alternative methods of achieving decision unit objectives result in any of the alternative methods (to the current method) being recommended for funding for the budget, or for more study later on? Provide specific examples.

6. Did the emphasis on objectives result in:

   -- identification of more and/or more clearly defined objectives? Explain.

   -- better (easier) analysis and decisionmaking? Explain. What action is being taken to improve the setting of objectives?

7. What guidelines were provided for the identification of minimum levels? Describe any particularly good methods of developing minimum levels that may be of assistance to other agencies.

8. Within a decision unit, were intermediate decision packages developed to bridge between the minimum and current levels? If not, did the packages still give higher management levels meaningful increments to consider?

C. Ranking process.

9. Describe the ranking process used at each subordinate organizational level and at the top agency level. Describe any aspects of the process (e.g., use of criteria, ADP, management committees) that may be of assistance to other agencies.

D. Analysis of the process.

10. Did the total volume of budget justification material vary significantly from last year? If the answer is "yes", approximately what percentage less or more was required? Explain if a change in volume is expected next year and why.

11. In what ways, if any, did the ZBB process hinder or facilitate the consideration of major issues?

12. Did the ZBB process involve more managers to a greater extent in the budget process? If yes, describe the effect of this.

13. Was ZBB an aid in identifying trade-offs within or between programs or activities? If "yes", explain how. If no, explain why.

14. Describe specific instances of savings or improvements attributable to ZBB.

15. Describe specific programs or activities where the ZBB process was particularly effective and those where it did not seem to work as well. In this regard, summarize any conclusions drawn concerning the applicability of ZBB next year.

16. Was the staff sufficiently trained in ZBB? If not, what plans are there to ensure that adequate training will be provided to the staff prior to the start of the 1980 budget cycle?

17. What changes, if any, should be proposed in the content or format of the decision unit overviews, decision packages, or ranking sheets? How should other portions of OMB Bulletin 77-9 or the appropriate portions of Circular No. A-11 be revised for next year?

18. Include any further comments, including suggestions for changes in the process that have resulted from this first year's experience.

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Remarks:

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Remarks:

FYI

Response to OMB
Questionnaire on IBB.

Please Type Questions —
Then answers in Sequence

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FORM NO. 237   Use previous editions
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TRANSMITTAL SLIP	DATE 16 Nov 77

TO:
IC Staff

ROOM NO.	BUILDING

REMARKS:

Note request to put questions and
answers in sequence.

I think it might be easier to do this
with a cut-and-paste job rather than
"re-typing." You could just put the
question and then the answer and
make a Zerox copy of the final product.

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FROM:	SA / DCI
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FORM NO. 241
1 FEB 55   REPLACES FORM 36-8
             WHICH MAY BE USED.   (47)

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COMMENT		FILE		RETURN
CONCURRENCE		INFORMATION		SIGNATURE

Remarks:

Attached, per your request, is set of
questions (in proper sequence) followed
by answers, identified either as ICS
or NFIP responses.

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B-9.5